New Issue: Moody's assigns a MIG 1 rating to the Town of Hanover's (MA) $8.5 million General Obligation Bond Anticipation Notes

Global Credit Research - 27 Aug 2012

Affirms Aa2 rating on $51.9 million in outstanding general obligation debt

HANOVER (TOWN OF) MA
Cities (including Towns, Villages and Townships)
MA

Moody's Rating

ISSUE	RATING
General Obligation Bond Anticipation Notes	MIG 1

Sale Amount	$8,500,000
Expected Sale Date	09/14/12
Rating Description	Note: Bond Anticipation

Moody's Outlook NOO

Opinion

NEW YORK, August 27, 2012 --Moody's Investors Service has assigned a MIG 1 rating to the Town of Hanover's (MA) $8.5 million General Obligation Bond Anticipation Notes. Concurrently, Moody's has affirmed the Aa2 underlying rating assigned to $51.9 million in outstanding general obligation debt. The notes, dated September 14, 2012 and payable on September 13, 2013 have been voted exempt from the limitations of Proposition 2-1/2 and will provide short-term financing for a portion of the town's High School construction project.

SUMMARY RATING RATIONALE

The MIG 1 rating incorporates the town's satisfactory history of access to the capital markets as well as its above-average long-term credit profile.

The Aa2 rating incorporates the town's large residential tax base with proximity to Boston (rated Aaa/stable outlook), manageable debt burden with additional borrowing plans, and stable financial position.

STRENGTHS

-Affluent suburb of Boston

-Satisfactory reserves

CHALLENGES

-Above average direct debt burden

-Declining Equalized and Assessed property tax valuations

DETAILED CREDIT DISCUSSION

DEMONSTRATED MARKET ACCESS

Hanover has demonstrated a satisfactory history of access to capital markets. The town received six bids on its most sale dated March 14, 2012. Additionally, the town received four bids on a note sale dated September 7, 2011 and 10 bids for a sale dated September 15, 2010. All bids were received from major regional and national financial institutions. Hanover's history indicates the town's ability to refinance the notes at their September 2013 maturity.

STABLE FINANCIAL POSITION WITH HEALTHY RESERVES

The town's financial position is expected to remain stable given strong financial management and conservative budgeted practices. The town adopted a series of formal financial policies in December 2011 to ensure on-going financial stability including multi-year capital improvement plans and planning for future liabilities including establishing an OPEB trust funded with receipts from local meals taxes. The town has maintained an average General Fund balance of 16.96% from 2007 through 2011 reflecting structurally balance operations. The fiscal 2013 budget grew by 3.9% primarily driven by increased employee benefit cost however the town reduced its annual free cash appropriation. The town has been annually appropriating between $1.5 million to $1.7 million in free cash however reduced the appropriation to $840,000 in fiscal 2013 reflecting management's commitment to minimize its reliance on reserves to fund operations.

The fiscal 2012 adopted budget had appropriated $1.3 million in free cash to fund the budget however management reports that by year end the town fully replenished the appropriation ending the year with a $2.2 million free cash balance. Unaudited results indicate that undesignated fund balance grew to $2.6 million up from $2.39 million in fiscal 2011 and the Stabilization Fund was $1.69 million providing the town healthy financial flexibility. The projected operating surplus in fiscal 2012 was primarily driven by an increase in unbudgeted local and state revenues and approximately $1 million in positive expenditure variances resulting from conservatively budgeted expenditure estimates and unexpended appropriations in the snow and ice budget given the mild winter. Fiscal 2011 ended with a $346,000 draw on reserves and a healthy $8.3 million General Fund balance, 16.5% of General Fund revenues. The town had appropriated $1.7 million in free cash and replenished $1.3 million of the appropriation with $761,190 in unbudgeted revenues including increases in excise taxes and state aid and with $1.1 million in positive expenditure variance reflecting conservative budgeting practices.

The town participates in the Plymouth County retirement system covering all municipal employees expect school teachers. Contributions in fiscal 2011 and 2012 were approximately $2 million, or 4% of operating expenditures for both fiscal years and are expected to increase to $2.37 million or 15% in fiscal 2013.

MATURE TAX BASE IN CLOSE PROXIMITY TO BOSTON

Moody's expects the town's $2.6 billion tax base will begin to stabilize in the near term despite recent declines in property tax given the town's close proximity to Boston and increased building permit activity. The mostly-residential town, situated approximately 25 miles southeast of Boston, reflects a diverse tax base that includes a moderate representation of commercial properties (13%) and modest industrial development (2.6%). Town officials report continuing efforts to attract commercial enterprises, which include new zoning efforts and infrastructure improvements along Routes 3 and 53. Equalized values increased at a 2.5% annual rate from 2008 through 2012, including the most recent declines of 7.9% and 7.3% in 2011 and 2012, respectively after years of significant tax base growth from 2001 through 2007. With the onset of the recession, the town's assessed valuation exhibited reductions over the past four years however the decline in 2012 was 0.6% versus an improvement over the 4.3% decrease in 2011. Real property tax collections have remained strong, with a reported 100% collected on a current year basis for 2011 and 2012. Wealth and income levels are healthy, with per capita income equal to 117% and 140% of commonwealth and national medians, respectively, and a strong equalized value per capita of $174,697.

MANGEABLE DEBT BURDEN WITH LIMITED FUTURE BORROWING PLANS

Moody's believes that the town's 3% overall debt burden will remain manageable given average amortization of principal (69.2% within 10 years) and limited future borrowing plans. The town plans to permanently finance a portion of the current bond anticipation notes in 2013 once the town receives an anticipated state building aid reimbursement. Annual debt service is manageable as the debt has been exempted by the voters from the limitations of Proposition 2 ½. Notably, approximately 75% of the town's outstanding debt has been voted exempt from the levy limitation of Proposition 2 ½, significantly relieving pressure on the general fund budget. Debt service was a manageable 7.8% of 2011 General Fund expenditures. All of Hanover's debt is fixed rate and the town is not party to any derivative agreements.

WHAT COULD MAKE THE RATING GO UP:

- Trend of operating surpluses that result in stronger reserves

- Significant tax base expansion

WHAT COULD MAKE THE RATING GO DOWN:

- Decline in General Fund balance

- Deterioration of the town's tax base and demographic profile

- Significant increase in debt burden

KEY STATISTICS

2010 Population: 13,879

2012 Equalized Valuation: $2.4 billion

2012 Equalized Value per capita: $174,697

1999 Per Capita Income: $30,268 (116.6% of Commonwealth, 140.2% of U.S.)

1999 Median Family Income: $86,835 (140.8% of Commonwealth, 173.5% of U.S.)

Overall debt burden: 3% of equalized value

Direct debt burden: 2.5% of equalized value

Amortization of principal, 10 years: 69.2%

FY11 General Fund balance: $8.3 million (16.5% of General Fund revenues)

FY11 Available Reserves: $7.7 million (15.3% of General Fund revenues)

Post-Sale Long Term Debt Outstanding: $51.9 million

The principal methodology used in this rating was Bond Anticipation Notes and Other Short-Term Capital Financings published in May 2007. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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